

Economic Outlook

Economic Outlook provides an overview of the prospects for the Korean economy on a quarterly basis (in January, April, July, and October) based on sources published by the Bank of Korea.

Summary

- ◆ Korea's real GDP is projected to grow by 1.6 percent in 2023 and by 2.4 percent in 2024, considering the recent changes in domestic and international conditions.
- ◆ The number of persons employed is expected to increase by 130,000 in 2023 and 150,000 in 2024.
- ◆ Consumer prices are forecast to rise by 3.4 percent and by 3.3 percent in 2023 and 2024, respectively.
- ◆ The current account is expected to record a surplus of USD 26 billion 2023 and USD 48 billion in 2024.

Economic Forecasts

(%, *Year-on-year)

	2022 ^{e)}	2023 ^{e)}	2024 ^{e)}
GDP*	2.6	1.6	2.4
Changes in no. of persons employed*	820,000	130,000	150,000
Unemployment rate	2.9	3.4	3.3
Employment rate	62.1	62.1	62.1
Consumer prices	5.1	3.5	2.6
Current account (USD billion)	29.8	26.0	48.0

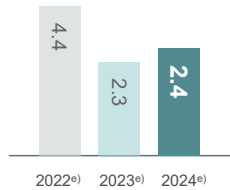
Source: Bank of Korea (bok.or.kr)

Macroeconomic Outlook

1. Economic Growth

Private consumption

(Year-on-year, %)

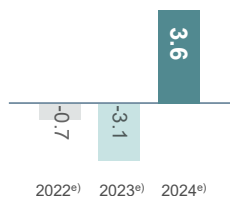


Private consumption is forecast to grow by 2.3 percent in 2023 and by 2.4 percent in 2024. Private consumption is expected to continue to recover, only gradually due to the slowdown in the rise of purchasing power and in the rise of debt servicing costs. The effect of pent-up demand* for overseas consumption is expected to accelerate, whereas domestic consumption is forecast to grow only gradually. The accumulation of household savings is expected to serve as a buffer.

*Pent-up demand: A rapid increase in consumption following a period of subdued spending.

Facilities investment

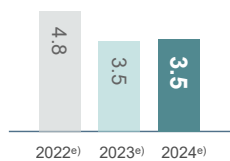
(Year-on-year, %)



Facilities investment is expected to contract by 3.1 percent in 2023 and by 3.6 percent in 2024. Facilities investment improved in Q4 2022 backed by the introduction of semiconductor manufacturing equipment. However, facilities investment is projected to shrink, affected by the global economic slowdown and the increased cost of capital. Investment in the IT sector is forecast to decline, led mainly by the semiconductor industry, and investment in the non-IT sector will continue its decreasing trend. Service sector investment is projected to increase mainly in ICT and air transport industries.

Intellectual property products investment

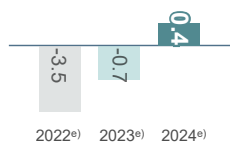
(Year-on-year, %)



Intellectual property products investment is expected to grow by 3.5 percent in 2023 and 2024. R&D investment is projected to slow, centered on private R&D investment, due to deteriorating corporate earnings caused by the slump in global demand. In contrast, other types of investment in intellectual property products are projected to continue to increase, led mainly by software investment for the digital transformation. More specifically, Korean companies are expected to invest more in incorporating AI technologies in their businesses.

Construction investment

(Year-on-year, %)

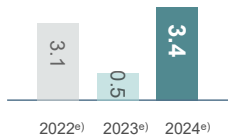


Construction investment is expected to grow by 0.7 percent in 2023 and by 0.4 percent in 2024. In Q4 2022, construction investment continued to be slow due to the sales of new houses and the delay in executing the government's SOC budgets. The construction of non-residential buildings is projected to be sluggish due to the economic slowdown while civil engineering is also expected to decline as the budget for government SOC expenditures decreases.

Exports of goods*

(Year-on-year, %)

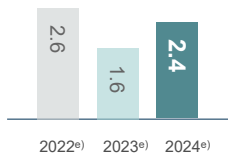
*Actual goods exported in GDP



Exports of goods are projected to grow by 0.5 percent in 2023 and by 3.4 percent in 2024. Exports of goods have been slow recently, mainly the exports to China and of IT product exports. However, the conditions are expected to improve gradually as the Chinese economy and the IT industry recover in the second half of 2023. Despite improved demands from China, exports of non-IT sectors including chemical products, steel and machinery, are expected to fall due to declining unit prices.

Economic growth

(Year-on-year, %)



Korea's real GDP is projected to grow by 1.6 percent in 2023 and by 2.4 percent in 2024. The economy will continue to be sluggish due to the global economic slowdown and interest rate hikes, but is expected to turn around gradually after the second half of 2023 as the Chinese economy and the IT industry recover.

2. Employment

The number of employed persons (year-on-year) continues to grow rapidly since the fourth quarter of 2022, but the growth is slowing down. The number of persons employed is expected to increase only slightly, as the effects of reopening decrease and as the economy slows. In the service sector, the growth of employment is forecast to slow mainly in non-face-to-face service sectors due to the sluggish economy. In the manufacturing sector, employment is expected to decrease slightly as exports stall. Unemployment rates are projected to reach 3.4 percent and 3.3 percent in 2023 and 2024, respectively, and employment rates will be 62.1 percent and 62.2 percent, respectively.

3. Prices

Consumer prices are forecast to rise by 3.5 percent this year, hovering below the November 2022 forecast of 3.6 percent. Inflation (not including food and energy) is expected to reach 3.0 percent by slightly surpassing the previous forecast of 2.9 percent. In 2024, consumer prices are expected to grow by 2.6 percent, and core inflation is forecast to rise by around 2.0 percent. Going forward, the trend of inflation is highly unstable as it is filled with risks including economic recovery and foreign exchange rates.

4. Current Account Balance

The current account surplus is projected to narrow this year, as growing demand for outbound tourism deteriorates the service account. The goods account surplus is expected to remain subdued for the time being due to a slowdown in exports, but it is then expected to improve gradually beyond the second half of 2023 as the economy recovers. The service account, notably in the travel and transportation sectors, is expected to widen its deficit as pandemic-related factors that had been supporting the sectors diminish. The current account is forecast to record a surplus of USD 26 billion in 2023 and USD 48 billion in 2024.

Source: Bank of Korea (bok.or.kr)